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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTERESTUSSR MODIFIES PROPOSALS FOR PARTIAL DISARMAMENT
AGREEMENT Page 1

Soviet disarmament delegate Zorin, responding to an earlier informal US presentation of views, on 7 June moved toward the American position by accepting suggestions on three points at issue. However, the Soviet Union maintained intact its minimum terms for a partial agreement as set forth in its 30 April proposals--suspension or cessation of nuclear tests, renunciation of the use of nuclear weapons, and a commitment to reduce forces beyond the first-stage level of 2,500,000 for the US and the USSR. In the forthcoming phase of the London talks, Zorin probably will seek to focus attention on two issues on which Moscow apparently believes the West's position is most difficult to defend--a nuclear test ban and a European inspection zone. [REDACTED]

MIDDLE EAST DEVELOPMENTS Page 2

Developments favorable to the West in the first phase of the Lebanese election coincide with potentially important setbacks for Nasr in his relations with other Arab governments. King Saud's six-day visit to Jordan which commenced on 8 June highlights the emergence of an important Arab bloc estranged from Nasr. Meanwhile, relations between Jordan and Egypt have virtually been broken off, and there are growing indications of Saudi rapprochement with Iraq. [REDACTED]

NEW ITALIAN GOVERNMENT CRISIS Page 4

The search for a new Italian premier to succeed Christian Democrat Adone Zoli, who resigned on 10 June, is taking place in an atmosphere of political bitterness accentuated by press demands for early elections. Formation of an exclusively Christian Democratic caretaker cabinet, to govern pending elections advanced to autumn, seems the most likely solution. [REDACTED]

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THE NEW FRENCH GOVERNMENT Page 5

Maurice Bourges-Maunoury, youngest premier under the Fourth Republic, will be obliged to follow the general lines of the Mollet policy on the key financial and North African problems. His strong nationalism will be a complicating factor, however, in any discussion of France's role in Africa and the Middle East as well as on disarmament. [REDACTED]

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PART II**NOTES AND COMMENTS****NORTH AFRICA Page 1**

Clashes between French army units and the Tunisian national guard continue. As a result, Premier Bourghiba has renewed his demands that France evacuate all Tunisia except the strategic base at Bizerte. The French contend that Bourghiba cannot maintain order. In Algeria, the widely publicized Melouza massacre which occurred on 28 May and the riots by Europeans on 11 June are symptomatic of the continuing deterioration of the security situation. [REDACTED]

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KARACHI SESSION OF BAGHDAD PACT COUNCIL Page 2

The recent meeting of the Baghdad pact council in Karachi demonstrated that, despite differences of opinion on procedural and organizational matters, the members are basically united in their desire to get ahead with the business of area defense planning. There is agreement that while the membership of other Arab states is desirable, no pressure will be exerted to bring them in at this time. [REDACTED]

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KISHI'S WASHINGTON VISIT Page 3

The major purpose of Prime Minister Nobusuke Kishi's visit to Washington, scheduled for 19-21 June, is to lay the foundation for a change in the "basic spirit" of the relationship between the United States and Japan. He apparently feels the key to better relations lies in revising the US-Japanese security treaty and administrative agreement, but he is expected also to seek adjustments on several other major issues. These include the status of the Ryukyus and the Bonins, China trade, nuclear tests and the release of Japanese war criminals. [REDACTED]

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BULGANIN-KHRUSHCHEV VISIT TO FINLAND Page 5

Bulganin and Khrushchev on 13 June ended their seven-day visit to Finland--their first to a non-Communist country since the Hungarian revolution. The two leaders made a special attempt to demonstrate that Soviet-Finnish relations constitute a prime example of friendly intercourse between countries regardless of their social systems. Although the Soviet delegation included high government, defense and trade officials, no outstanding problems between the two countries were negotiated. [REDACTED]

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ORGANIZED RESISTANCE TO SOVIET LITERARY POLICY Page 6

At a recent Communist Party meeting of Moscow writers, it was openly charged that the editors of the much-criticized almanac Literaturnaya Moskva, supported by several liberal young authors, had formed an "opposition group" on the basis of a "clearly defined literary-political platform not in conformity with the party's policy in the field of literature." The platform is alleged to advocate "democracy without bounds," "freedom of the press," and other "petty-bourgeois vacillations." [REDACTED]

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HUNGARY'S ECONOMIC PROBLEMS Page 7

Fiscal policies underlying this year's economic plan and budget in Hungary have been radically revised in order to meet some of the country's grave economic problems. Investments, military expenditures and output goals have been cut drastically. Nonetheless, judging from the poor performance during the first quarter of this year, it seems that even these modest goals are too high. For the foreseeable future, Hungary will continue to be an economic liability to the Soviet bloc. [REDACTED]

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EAST GERMAN EFFORTS TO COMBAT STUDENT UNREST Page 8

The East German regime's determination to stamp out deviationist ideas in university and intellectual circles is being emphasized at discussions between party leaders and university officials throughout East Germany. As a result of the government's repressive measures and in order to avoid army service, East German youth are fleeing to the West in growing numbers. [REDACTED]

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CYPRUS Page 9

As a result of his preliminary investigation of the Cyprus question, NATO Secretary General Spaak believes that internationally guaranteed independence offers the most helpful basis for reopening negotiations. British governor Harding wants London to make some positive move now toward eventual negotiation with the Cypriots, but the government prefers to await the outcome of Spaak's endeavors. [REDACTED]

INDONESIA Page 10

Lt. Col. Sumual, commander in East Indonesia, and army chief of staff General Nasution have reached a "mutual understanding" for "normalizing" military, economic and financial relations between East Indonesia and the Djakarta government. The degree to which such an understanding will be implemented remains to be seen. Meanwhile, the economic consequences of the separatist movements are becoming increasingly apparent. Prime Minister Djuanda plans to submit the \$100,000,000 Soviet technical aid agreement to parliament in the near future. [REDACTED]

SITUATION IN LAOS Page 11

Laotian prime minister-designate Katay is attempting to form a cabinet in which all major parties will be represented. His chances of success, while still fair, have been somewhat reduced as a result of the unfavorable reaction of a number of deputies to his proposed tough policy toward the Pathet Lao. The Pathets, meanwhile, are engaged in an all-out effort to block Katay and return Souvanna Phouma to office. [REDACTED]

COMMUNIST CHINA'S FORTHCOMING NATIONAL PEOPLE'S CONGRESS Page 12

The upcoming session of Communist China's National People's Congress--nominally the highest organ of government--will probably stress Peiping's policy of general relaxation in internal affairs, reaffirming in particular the regime's decision to allow popular criticism of the Chinese Communist Party. The highlight of the session, scheduled to open on 20 June, is likely to be Chou En-lai's foreign policy report in which he will probably support all Soviet policies toward the West and underscore the importance of bloc unity, while pointing out that such unity does not require complete agreement among the Communist countries on all matters. [REDACTED]

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**COMMUNIST CHINA CHARGES INTRUSION BY AMERICAN
AIRCRAFT Page 13**

Peiping can be expected to use the 12 June incident near Swatow involving American aircraft in its propaganda campaign against Taiwan. The Chinese Communists were quick to link their allegations of intrusions of American naval aircraft with charges of new American "aggression and provocation." The Communist charges were not unusual, either in tone or the speed with which they were publicized. [REDACTED]

CUBAN GOVERNMENT'S POSITION WEAKENS Page 14

President Fulgencio Batista's government has suffered a noticeable loss of prestige during the past few weeks. It has failed in its drive against the rebels in eastern Cuba and in its efforts to promote a political compromise in Havana. Batista's ability to retain control until the end of his term in February 1959 is uncertain. [REDACTED]

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THE CANADIAN ELECTIONS Page 15

The failure of either of the major Canadian parties to win a majority in the 10 June election and the absence of any apparent basis for a coalition suggest that new elections may be held soon. Most observers expect, however, that the Conservatives will in the meantime form a government which would display heightened sensitivity about Canadian sovereignty in relation to the United States, and seek to tighten relations with Britain and the Commonwealth. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****NEW FERMENT IN EASTERN EUROPE STIMULATED BY
CHINESE COMMUNIST DOCTRINES Page 1**

Communist intellectuals in Eastern Europe have begun to turn to Communist China for inspiration and ideological support. Polish intellectuals cite Chinese doctrines that are at some variance with Soviet doctrine (especially Chinese concepts of "let all flowers bloom" and "internal contradictions"), and writers in the hard-line Satellites have begun to do the same. With the exception of Hungary, these hard-line Satellite regimes have avoided interpretation and discussion of the Chinese ideas. In Hungary where the controls are strictest, official publications

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stress that the new Chinese doctrines are not necessarily applicable elsewhere in the Communist world. This approach, which is probably intended to check any groundswell of Chinese-inspired intellectual ferment, has recently been sanctioned by Khrushchev and may become the orthodox line in the Soviet bloc. [REDACTED]

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SHORTCOMINGS IN COMMUNIST CHINA'S ECONOMIC PLANNING . . . Page 3

The Chinese Communists recently have admitted they made "serious mistakes" in being overambitious in economic planning, implying that this was in part a result of their past dependence on Soviet economic advice. These mistakes, they say, are the cause of the raw material and consumer goods shortages as well as the financial stringencies of the past six months which forced Peiping to make 1957 a year of retrenchment and austerity. Indications are that a conservative outlook will affect China's Second Five-Year Plan (1958-1962). The investment pattern for the plan is to be altered to give an increased proportion of funds to light industry and agriculture, and more emphasis will be put on the construction of small- and medium-sized enterprises which can be designed and equipped from China's own resources. [REDACTED]

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SINO-CEYLONESE RICE-RUBBER AGREEMENT TO BE RENEGOTIATED . Page 7

The Ceylonese government is preparing to renegotiate with Communist China the five-year rice-rubber agreement which expires at the end of 1957. A delegation tentatively scheduled to visit Peiping this month for this purpose will probably find the Chinese disinclined to sign an agreement as favorable as that obtained by Ceylon in 1952. Signature of a less favorable agreement would subject Prime Minister Bandaranaike's government to considerable domestic criticism. A breakdown of negotiations without agreement could have repercussions seriously affecting the government's stability. [REDACTED]

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SOME LATIN AMERICAN COMMUNISTS LOOKING TO PEIPING Page 9

Some Latin American Communist Party leaders--particularly in Ecuador, Chile, Colombia and Costa Rica--have recently been emphasizing the applicability of the methods and activities of the Chinese Communist Party to Latin American conditions. Ideologically, the Communists cite parallels between pre-Communist China and Latin America, such as economic domination by foreign capital and a "semi-colonial" political status. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

USSR MODIFIES PROPOSALS FOR PARTIAL DISARMAMENT AGREEMENT

Soviet disarmament delegate Zorin, responding to an earlier informal US presentation of views, on 7 June moved toward the American position by accepting suggestions on three points at issue. However, the USSR maintained intact its minimum terms for a partial agreement as set forth in its 30 April proposals--suspension or cessation of nuclear tests, renunciation of the use of nuclear weapons, and a commitment to reduce forces beyond the first-stage level of 2,500,000 for the US and the USSR. In the forthcoming phase of the London talks, Zorin probably will seek to focus attention on two issues on which Moscow apparently believes the West's position is most difficult to defend--a nuclear test ban and a European inspection zone.

The Soviet memorandum, presented by Zorin on 7 June, agreed to the United States delegate's suggestions for (1) a three-stage reduction of forces; (2) an inspection system to enforce a cessation of nuclear tests; and (3) armaments reductions by specific quantities rather than on a percentage basis as the USSR had previously proposed.

While Zorin has consistently stated that the USSR regards a commitment to reduce forces beyond the first-stage level of 2,500,000 for the US and the Soviet Union as an essential part of a limited agreement, he had indicated at the end of April that the precise amount of reductions was "negotiable." He now has agreed to the US suggestion that conventional forces

be reduced in three stages: to 2,500,000 men for the US and the Soviet Union in the first stage, to 2,100,000 in the second stage, and to 1,700,000 in the third stage.

The Soviet memorandum requires that any partial agreement must commit the signatories to all three stages and implies that the US position that the second- and third-stage reductions are dependent on progress toward political settlements is unacceptable.

In response to the United States' position that there must be an inspection system to supervise a cessation of nuclear tests, Zorin's 7 June memo abandoned Moscow's previous position, expressed as recently as 20 April in Bulganin's letter to Prime Minister Macmillan, that no such inspection is necessary to stop tests. Moscow now indicates "readiness to establish such control" and proposes that control posts be established in the Soviet Union, the United States, the United Kingdom, and "in the area of the Pacific Ocean."

Zorin, however, repeated the standard Soviet demand for an immediate and unconditional cessation of nuclear tests independent of any other aspects of the disarmament problem. He rejected the US proposal for a ten-month cessation of tests on the grounds that it is made contingent upon Soviet agreement to halt production of nuclear weapons and that it "could actually be used to prepare for subsequent tests." The Soviet

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government, according to Zorin's memo, believes that a temporary cessation of tests should last "at least two or three years."

The third modification in the Soviet proposals for a partial agreement accepted the US position that armaments reductions should be negotiated in specific quantities rather than on a percentage basis. Moscow's 30 April proposals had called for a flat 15-percent reduction in both armaments and military budgets during the first stage of a partial agreement.

The Soviet memorandum again demanded that the powers assume "a solemn obligation to renounce the use for military purposes of atomic and hydrogen weapons" and rejected the US position concerning exceptions to a prohibition on the use of these weapons as tantamount to a "legalization" of their use. Zorin charged that the US position would make possible a "completely arbitrary use of atomic weapons" and stated that the "Soviet Union cannot be a partner in such a deal."

On the question of aerial inspection, Zorin confirmed Soviet readiness to consider establishing "appropriate zones" but noted the "negative attitude"

of the United States toward the zones proposed in Moscow's 30 April plan. Zorin stated that "a solution should be sought, not in rejecting or narrowing aerial control, but rather in its expansion." This statement reflected the Soviet leaders' belief that Western European, particularly official West German, opposition to a European inspection zone will provide them with a chance to repeat the charge that the United States is again abandoning its own disarmament proposals after the USSR accepts them.

Moscow is likely to reject any Western proposals which do not provide for a European inspection zone and can be expected to exploit heavily any opportunity to blame West German opposition to a European zone for any failure to reach a partial agreement. Soviet propaganda since Chancellor Adenauer's visit to Washington has stressed that the US and West Germany have formed a "united front" to prevent any disarmament. Zorin told the US delegate on 3 June that the disarmament talks should not be complicated by political questions and warned that if the US brings the German question into the disarmament talks, it would hamper progress in both disarmament and reunification. [REDACTED]

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[REDACTED]
25X1**MIDDLE EAST DEVELOPMENTS****Lebanese Elections**

Victory for supporters of pro-Western Premier Sami Solh in the first stage of Lebanon's parliamentary elections on 9 June augers well for the results in the contests scheduled for

the remaining Sundays in June. Progovernment candidates have won 15 out of 22 seats contested in Beirut and South Lebanon. The absence of incidents in the heavily Moslem south, despite Egyptian and Syrian efforts to foment unrest, indicates the

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army's ability to maintain order. However, the election in the predominantly Moslem northern city of Tripoli, scheduled for 30 June, could be attended by antigovernment demonstrations requiring army action.

A New Arab Bloc

Election developments in Lebanon coincide with important setbacks for Nasr in his relations with other Arab governments. As a result, Nasr has become more cautious and apparently is attempting to curtail somewhat his conspiratorial activities against his Arab "allies."

King Saud's six-day visit to Jordan which commenced on 8 June highlights the emergence of an important Arab bloc estranged from Nasr.

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On 10 June, during Saud's visit, Jordan expelled the Egyptian military attaché and the consul general in Jerusalem for subversive activities; Egypt responded by demanding the recall of Jordan's ambassador. Meanwhile, relations between Egypt and Jordan have virtually been broken off.

Saud's attitude toward Nasr has undergone a marked transformation following the disclosure of Egyptian intrigue against various Arab governments, including his own.

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25X1Jordan

In Jordan, King Hussain appears willing to risk provoking Nasr by his determination to eradicate and publicly discredit Egyptian influence.

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Jordan's economic plight remains serious despite Saudi and American aid. At least a \$20,000,000 budget deficit threatens, largely because of the refusal of Egypt and Syria to provide aid promised to replace the old British subsidy. It has been announced that this aid will not be forthcoming unless Jordan adheres to the line of "positive neutrality" espoused by Nasr.

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Syria

The current trip of Syrian president Quwatli to Egypt, ostensibly for his health, appears partly an attempt to steal the thunder from Saud's visit to Amman.

The pro-Egyptian Asali government has joined in denouncing Jordan. Asali has held emergency cabinet sessions to consider the effects of the dispute between Jordan and Egypt. These events may encourage moderate Syrian opposition members of the legislature and army to make a new attempt to bring about the fall of the Asali cabinet.

Egyptian Election Preparations

Nasr must contend at home with problems of rigging elections on 3 July for the first parliament under his regime. Single party candidates will be screened and selected by a government panel, and a government victory is expected. While Nasr's administrative control over Egypt has been strengthened, the pre-election period has given anti-regime elements an opportunity to protest the high-handed

organization of the election. The Moslem Brotherhood, an anti-Nasr, right-wing extremist group, has renewed terrorism in the election campaign,

action followed suppression of a prison riot on 1 June in which several prominent Brotherhood leaders were killed.

Aqaba and Suez Developments

The small Israeli-flag vessel Atlit arrived at Eilat on the Gulf of Aqaba without incident on 7 June after a trip around Africa from Haifa. A number of foreign-flag vessels with Israeli cargoes had previously arrived at Eilat. At least two of these transited the Suez Canal. Two Liberian-flag tankers with Iranian oil are due at Eilat during June.

Prime Minister Ben-Gurion on 7 June reaffirmed Israel's intention to send one of its vessels to test the right of Suez transit, but the semi-official Israeli newspaper Haaretz stated on 11 June that this undertaking had been abandoned and that chartered foreign vessels would be used to carry Israeli trade through the canal.

NEW ITALIAN GOVERNMENT CRISIS

The search for a new Italian premier to succeed Christian Democrat Adone Zoli, who resigned on 10 June, is taking place in an atmosphere of political bitterness accentuated by press demands for early elections. Formation of an exclusively Christian Democratic caretaker cabinet, to govern pending elections advanced to autumn, seems the most likely solution.

Zoli's failure makes it improbable that any Christian Democratic government except a caretaker one could win parliamentary approval. Zoli himself repudiated the backing of the extreme right, and the Nenni Socialists refused their support despite his left-of-center program. Reconstitution of a center coalition cabinet seems unlikely because Zoli's harsh criticisms may have

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further alienated the small center parties, which formerly co-operated with the Christian Democrats.

Widespread dissatisfaction over the prospect of another year of parliamentary indecision may lead to elections in the fall. In such a case, an all-Christian Democratic minority cabinet will probably be set up to prepare for elections. Former premier Giuseppe Pella, Senate president Cesare Merzagora and Pietro Campilli, former minister in charge of southern development, have been mentioned

as the most logical candidates to head a caretaker government.

Such a government's only pressing task would be next year's appropriations which must be provisionally approved by parliament before 1 July and given final approval by 31 October. If the Chamber of Deputies were dissolved by President Gronchi in late July, elections could then take place in early October. This timing would meet the constitutional provision for elections within 70 days of dissolution without interfering with the harvest or the summer holidays.

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THE NEW FRENCH GOVERNMENT

Maurice Bourges-Maunoury, at 42 the youngest premier under the Fourth Republic, will be obliged to follow the general lines of the Mollet policy on the key financial and North African problems. His strong nationalism will be a complicating factor, however, in any discussion of France's role in Africa and the Middle East as well as on disarmament.

His small 240-192 investiture majority is mainly the result of a last-minute decision by the Popular Republicans to abstain. The new premier's shaky start is also emphasized by the rightists' warning that the 60 Independent votes for investiture cannot necessarily be counted on in the future, and by widespread dissatisfaction within the ranks of the Socialists, despite their support.

Like Mollet's this is a minority government; the only major cabinet change is the removal of Socialist Paul Ramadier from the Finance Ministry. Emphasis on exploiting Saharan oil resources is evident in the establishment of a Ministry for the Sahara. Ramadier's ouster is a sop to the right, and his successor, Radical Socialist Felix Gaillard, may be under less immediate pressure to support Socialist welfare goals. He will, however, probably push an austerity fiscal policy basically the same as that on which Mollet fell.

Although Robert Lacoste continues as minister residing in Algeria, he reportedly has accepted the idea of some modification in his "pacification first" policy. Bourges-Maunoury has already proposed a temporary statute to step up political

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reform in Algeria, and there are indications that a growing minority in the Socialist Party will make a strong fight at the party's national congress on 27 June to change the government's current Algerian policy. The new wave of terrorism in North Africa has evoked a sharp reaction in France, however, and Bourges-Maunoury will not risk loss of rightist support by an about-face on Algeria.

As minister of defense, Bourges-Maunoury was a staunch supporter of Lacoste's pacification program, [REDACTED]

Bourges-Maunoury has stated his intention to press for National Assembly approval of EURATOM and the Common Market before the summer recess which normally begins in July. The actual timetable, however, will probably depend on his success in getting quick action on financial measures. Meanwhile, his government's position in the disarmament discussions may



BOURGES-MAUNOURY

be directly influenced by his nationalistic desire to maintain France's military stature and in particular by his concern for France's position in the nuclear weapons field.

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PART II

NOTES AND COMMENTS

NORTH AFRICA

Tunisia

Four clashes between French army units and the Tunisian national guard occurred on June 7 in the Gabes region of central Tunisia. As a result, Premier Bourghiba has renewed his demands that France evacuate all Tunisia except the strategic base at Bizerte. French and Tunisian reports vary widely on the cause of the clashes in which seven French soldiers and six Tunisians were killed.

A French communiqué of 2 June implied that the French army would ignore Bourghiba's order that it not leave its barracks without advance authorization. Bourghiba has told the American ambassador that the French army considers itself above civilian control and is "determined again to establish France" in Tunisia.

The French claim, meanwhile, that three of the 7 June incidents occurred even though authorization for troop movements had been given by local authorities in Gabes. A French spokesman in Paris has told the American embassy that Bourghiba rejected a French proposal that a French-Tunisian commission of inquiry investigate the clashes. The alleged rejection may have occurred in a note handed the French ambassador in Tunis on 9 June urging a "review of recent incidents" and reiterating Tunis' demand for the withdrawal of French troops before any defense negotiations with France begin.

The French spokesman also charged that the Tunisian government may have provoked the incidents to arouse public opinion against the French

army and provide a basis for an appeal to the United Nations. However, he, as well as French officials in Tunis, drew attention to the possibility that Algerians or anti-Bourghiba elements may have instigated the incidents and that Bourghiba is reluctant to admit he cannot enforce order.

The Tunisian security forces--which number less than 5,000, including the 2,200-man Tunisian army--lack the essential materiel and mobility to maintain order, partly because France has withheld essential supplies. French forces in Tunisia have been reduced to 25,000, according to the Paris spokesman, and will be drawn on heavily to meet the request of Robert Lacoste, French minister residing in Algiers, for more troops. The reduction envisaged by Paris may have to be stepped up considerably if present tensions are to be alleviated.

The well-disciplined Neo-Destour youth and Neo-Destour-affiliated labor groups have been unusually active, possibly in preparation for action against French forces or a defense against Algerian subversion.

Algeria

In Algeria, the widely publicized massacre on 28 and 29 May of more than 300 Moslem Algerian men and boys from several hamlets near Melouza in north central Algeria illustrates the continuing deterioration of the security situation in Algeria. Reports from the area indicate that the massacre resulted in large part from an intertribal blood feud. It

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reportedly has succeeded in deterring some Moslems from rallying to support France, and many Moslems who had accepted administrative appointments recently now are resigning.

Both the Algerian National Liberation Front (FNL) and the French are attempting to capitalize on the incident. The FLN--claiming that the massacre was a French act--is working through the Arab-Asian bloc in the United Nations to demand an international investigation. The French government, probably in a bid for support when the Algerian issue is brought before the UN again this fall, has invited the United States and eight other governments to

send observers to the Melouza area to question survivors.

Meanwhile, terrorism seems on the upsurge throughout Algeria. The explosion of time bombs in lamp posts on 3 June and in a casino on 9 June--resulting in 16 persons killed and 70 wounded--were the most spectacular incidents in Algiers since a milk bar bombing last fall. European youths, seeking vengeance for the casino bombing, staged all-day riots on 11 June, during which they clubbed at least five Moslems to death.

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KARACHI SESSION OF BAGHDAD PACT COUNCIL

The recent meeting of the Baghdad pact council in Karachi demonstrated that, despite differences of opinion on procedural and organizational matters, the members are basically united in their desire to get ahead with the business of area defense planning. There is agreement that while the membership of other Arab states is desirable, no pressure will be exerted to bring them in at this time.

The Karachi meeting was the first at which Britain was formally represented since the Suez crisis. The Middle East members also enthusiastically welcomed American participation as a full member of the economic and military committees of the

pact. They continue to hope for eventual full American membership.

The note of optimism on which the council adjourned does not reflect, however, the heated debates and inner conflicts of the four-day session when matters of extreme national concern were discussed. The air cleared somewhat when the chief delegates, in restricted session, had an opportunity to voice their major national problems, such as Pakistan's concern over Indian neutralism and the Kashmir problem.

There were four broad areas of disagreement which involved the definition of terms of reference, delineation of the

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area of military responsibility, creation of a military command system and a declaration of common action in the event of Soviet intervention in the pact area. These basic problems were all apparently reconciled during the course of the session, but evidence of lingering dissatisfaction indicates that they will continue to be areas of controversy.

Pakistan and Iraq are especially interested in broadening the terms of reference to include possible subversion from India and Israel. At one point Pakistani prime minister Suhrawardy asserted that because of the limitations of the terms of reference, the "whole pact structure was being shaken." The pact members are most anxious to delineate the geographical area of pact responsibility in relation to NATO and SEATO and to develop a military defense command. The Middle East delegates especially regard the clarification of area responsibility as essential for military planning in peace and control of military operations in war. They have stated that without such planning the Baghdad pact is merely words.

It was finally agreed to set up a unified Directorate of Combined Military Planning with the directorship rotating among the member countries and an American general or flag

officer as deputy director. This organization is merely a planning structure, however, without command functions. The British delegate urgently proposed the beginning of a common Baghdad pact infrastructure program aimed at improving airfields and improving the radar coverage of the area, especially plugging the serious radar gap in Iran. Britain's desire to support the Middle East members' defense aims is highlighted by the British offer of a \$1,400,000 annual contribution for agreed infrastructure projects.

The proposed political declaration, which would in effect decree that Soviet intervention against any member of the Baghdad pact would constitute aggression against all members, was deferred until the Ankara meeting of the council next January. There was also a consensus that further measures should be taken to continue the trend toward Egyptian prime minister Nasr's isolation and to cultivate a pro-Western policy on the part of Afghanistan.

The decision to omit from the final communiqué any reference to such specific problems discussed as Palestine, Algeria, Cyprus, and Kashmir undoubtedly lessened the criticism from nonpact countries. [REDACTED]

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KISHI'S WASHINGTON VISIT

The major purpose of Prime Minister Nobusuke Kishi's visit to Washington, scheduled for 19-21 June, is to lay the foundation for a change in the "basic spirit" of the relationship between the United States and Japan. He believes that an enduring partnership cannot be

developed on the basis of an arrangement which has its roots in the occupation period, and which to most Japanese signifies continued American domination of Japan.

Kishi wants to revise the security treaty and

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administrative agreement, which to many Japanese symbolize Japan's subservience to the United States. There is no indication he wants to abolish the defense arrangements, but he apparently feels Japan should have a greater voice in determining American actions under the treaty. He may also seek a time limit for the treaty and a date for the withdrawal of American ground forces from Japan.



KISHI

The prime minister is expected to try to set a date for the return of the Ryukyus and Bonins to Japanese sovereignty. He has expressed the hope that some of the 7,000 former residents of the Bonin Islands will be permitted to return to their homes soon. He will also probably seek an early release of the 67 American-sentenced war criminals still in detention.

As for China trade controls, Japan will not immediately follow Britain's example in abolishing the China trade differential, but the prime minister will

probably point out that Japan cannot accept for long a discriminatory position vis-a-vis its major competitors.

Kishi recently completed a tour of six Asian nations designed partly to establish himself in American eyes as a spokesman for Asia. Most observers believe he failed in this purpose but that, as a result of the tour, he is likely to make a strong plea, based on general Asian sentiment for the cessation of nuclear tests. Although he found only lukewarm support for an Asian development fund--a favorite project of his--he is expected to press for co-ordinating US financial aid with Japanese technology and materials in developing Asian economies.

Kishi has avoided building up Japanese expectations regarding the outcome of his talks in Washington. He reportedly hopes as a minimum to gain American approval in principle for the establishment of a joint committee to revise the administrative agreement, for the return of former residents to the Bonin Islands, and for the creation of an Asian development fund. He believes this would give him a political victory at home and permit his government to maintain the close relations with the United States which he favors.

The Socialists, who are planning a large rally to embarrass Kishi on the eve of his departure, are preparing to launch a major attack on him if he fails to achieve his objectives.

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BULGANIN-KHRUSHCHEV VISIT TO FINLAND

Bulganin and Khrushchev on 13 June ended their seven-day visit to Finland--their first to a non-Communist country since the Hungarian revolution. The two leaders made a special attempt to demonstrate that Soviet-Finnish relations constitute a prime example of friendly intercourse between countries regardless of their social systems. Although the Soviet delegation included high government, defense and trade officials, no outstanding problems between the two countries were negotiated with the exception of a trade protocol.

The official communiqué signed and issued on 12 June reportedly was based almost wholly on the Finnish draft. It reaffirmed Finland's neutrality and aim to "contribute to the development of a better mutual understanding and greater accord based on mutual confidence."

Recognition of the principle of universal membership as a "natural prerequisite" for the success of the UN reflects the Soviet desire for Finnish support of Red China in the General Assembly. Both governments acknowledged the need for international control, a ban on the use of nuclear weapons, and an unconditional cessation of tests. An additional protocol called for an expansion of trade in 1957 by \$25,000,000. According to the terms, the Soviet Union will supply Finland with much-needed steel and oil products in return for Finnish power cables and pulp and paper products.

Stressing the exemplary nature of Soviet-Finnish relations, the Soviet leaders during their visit urged Finland to

promote conditions of peace in northern Europe. During the time set aside for formal talks, Khrushchev made a 40-minute denunciation of the United States, echoing the Bulganin letters to Norway and Denmark warning that small nations having atomic bases near the Soviet Union risk annihilation in the event of war. Khrushchev suggested that Finland should convince the Nordic countries of this danger.

The reaction of the Finns to these overtures demonstrates their determination to maintain strict neutrality. Finnish foreign minister Virolainen told

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Finland could not possibly comply with the Soviet request to influence the Nordic countries since such action would conflict with Finnish policy of noninvolvement.

The Soviet leaders were afforded a polite but modest reception by the Finnish public, and the presence of Bulganin and Khrushchev at the Finnish Trade Union celebration was given no special recognition.

At a state dinner, Bulganin presented to Finnish president Kekkonen a personal invitation from Soviet president Voroshilov to visit the USSR at the earliest convenient time. Voroshilov visited Finland last August, and any return visit by Kekkonen probably would not take place until next year in view of his scheduled trips to Iceland and Denmark.

By continuing to promote exchange visits of high officials, and thus keep alive the Finns' hope that Karelia will be returned, Soviet leaders probably hope to keep Finland strictly neutral. [REDACTED]

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ORGANIZED RESISTANCE TO SOVIET LITERARY POLICY

At a recent Communist party meeting of Moscow writers, it was openly charged that the editors of the much-criticized almanac Literaturnaya Moskva, supported by liberal young authors--Dudintsev (of Not by Bread Alone fame), Yashin (author of a satirical sketch Levers, a thinly disguised criticism of the Soviet system), Kron (whose Notes of a Writer has been severely criticized) and others--had formed an "opposition group" on the basis of a "clearly defined literary-political platform not in conformity with the party's policy in the field of literature." The platform is alleged to advocate "democracy without bounds," "freedom of the press," and other "petty-bourgeois vacillations."

Although they actively defended their position at the March plenum of the board of the Moscow Writers' Union, these rebellious writers allegedly took a "pledge of silence" at the 14-17 May plenum of the All-Union Writers' Union attended by party secretaries Shepilov and Pospelov, and refused to acknowledge their mistakes or submit to group criticism. The report of the Moscow party meeting states that they still "persist in their errors."

Furtseva spoke at the Moscow party meeting, and a decision was adopted "which noted that ideological vacillations of certain Communists have led

to factionalism by the Literaturnaya Moskva editorial board deserving the severest condemnation."

Statements at the meeting and other recent developments indicate that the Literaturnaya Moskva board enjoys the tacit support of a considerable number of less outspoken Moscow writers and that the Moscow writers' organization has been convulsed for several months by internal quarrels centering around controversial publications in Literaturnaya Moskva and the literary journals Novy Mir and Moskovsky Literator. Since the dissident writers are of the younger generation, the attempt to restrain them by older orthodox writers inevitably has overtones of a struggle between the generations. There is also evident resentment on the part of non-Russian writers of the privileged positions and luxurious lives of the Moscow writers, who are almost exclusively Great Russians.

Although a number of writers were purged or withdrew from creative work during Stalin's lifetime rather than conform to party directives, this movement is the first known organized resistance to the party line by writers since the early thirties and poses a serious problem for the regime. The editor of Moskovsky Literator has already been replaced, and more editorial shifts may well follow.

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HUNGARY'S ECONOMIC PROBLEMS

Fiscal policies underlying this year's economic plan and budget in Hungary have been radically revised in order to meet some of the country's grave economic problems. Investments, military expenditures and output goals have been cut drastically. Nonetheless, judging from the poor performance during the first quarter of this year, it seems that even these modest goals are too high.

Although investment outlays have been cut 36 percent and military appropriations almost halved, budgeted expenditures are 25 percent higher than last year. The need to subsidize industries producing at a loss will account for over a seventh of all expenditures budgeted and will negate in large part the economies achieved in military and investment cuts.

The severe inflationary pressures at work in Hungary today are reflected in the fact that the expanded budget is accompanied by a plan to produce only 2.4 percent more this year than last--a goal about 7 percent below the level achieved in 1955. Adding to the inflationary pressures is a pronounced emphasis on investment in such nonremunerative fields as housing and cultural projects. Funds for investment in industry, agriculture, transport and communications have been cut 52 percent from last year.

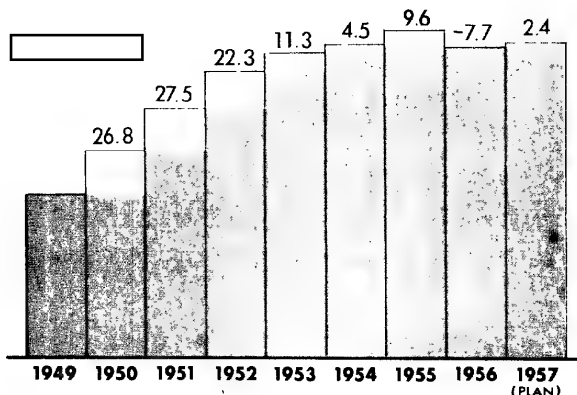
The plan calls for a 9-percent increase in the output of light and food industries

over 1956 and a decline in heavy industrial production of 4 percent. A major tenet of the economic plan is the promise of an increase in the standard of living, especially a 14-percent increase in the workers' purchasing power, but it seems inevitable that inflation will make this impossible.

Economic output during the first quarter was lower even than the regime anticipated in its modest plan. Industrial production was 20 percent below last year, and output per worker was down 10 percent. Industrial costs were up 14 percent and the average earnings of workers were up 20 to 25 percent. These factors combined

HUNGARIAN GROSS INDUSTRIAL PRODUCTION

(ANNOUNCED PERCENTAGE INCREASE OVER PREVIOUS YEAR)



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to create conditions of very high-cost production.

Industry continued to be hampered by shortages of raw materials, power and skilled manpower as well as obsolescent machinery. During this period, the rate of imports was double

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that of exports, the balance being paid with bloc credits.

Since domestic production of consumer goods cannot balance the increased purchasing power of 1956-57, the regime is planning to reduce exports of these goods in order to reduce inflationary pressures. The subsequent loss of markets is a serious deterrent to such a policy. Shipments from the Soviet Union are already approximately double the rate of last year.

Further inflationary pressure comes from the abandonment of compulsory farm deliveries which puts an extra five billion forints per year into the hands of the peasants. The price rises of 10 May which run counter to the promise of

higher living standards were designed to deprive the peasant of a part of this. The price increase may be the forerunner of other actions to "abolish the unhealthy discrepancies between purchasing power and stocks" by manipulating prices, wages and taxes.

The handicaps of the Hungarian economy are such that the minimal plan for 1957 will probably not be achieved; nor is the standard of living likely to withstand the inroads of inflation. Credits from the bloc are forestalling immediate deterioration, but repayment must be started as early as 1959 in some cases. For the foreseeable future, Hungary will continue to be an economic liability to the Soviet bloc.

(Prepared by ORR)

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EAST GERMAN EFFORTS TO COMBAT STUDENT UNREST

The East German regime's determination to stamp out deviationist ideas in university and intellectual circles is being emphasized at discussions between party leaders and university officials throughout East Germany. Party leaders have made it clear that no concessions such as have been made to the Polish intelligentsia will be granted in East Germany, and have indicated their belief that a purge of the universities is necessary.

In discussing the problem in Leipzig on 2 June, first secretary Walter Ulbricht said that "the working class wants honest work...study...and scientific discussions at universities...but we will not tolerate the organized work of Western intelligence agencies at our universities." Threatening to withhold scholarships,

without which few students can attend universities, Ulbricht warned that "those who cannot be convinced, need not accept scholarships of the workers and peasants in the German Democratic Republic."

Elsewhere, party officials have stated that major emphasis in the future would be placed on making good socialists of students. They criticized the party for its failure to develop strong cadres in the universities capable of overcoming the limitations in the knowledge of students, limitations which had been exploited by the "enemy" to foment unrest and provoke dissension. Occasional arrests of students allegedly subverted by the West have been widely publicized as a warning to students and faculty members alike.

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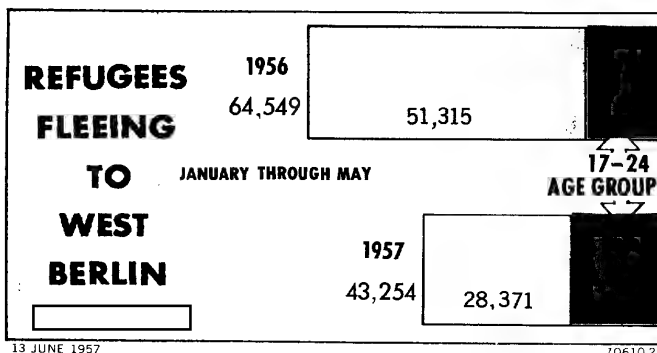
Despite the vigorous student opposition which greeted the government's announcement limiting vacation travel to the West by university students, the restrictions probably will be extended to elementary, trade and high school students. In the past several years student travel to the West has been quite extensive. In a corollary move, the regime has stepped up propaganda urging students to

only fear that many students would defect if permitted to travel freely, but that those who returned would be infected by democratic ideas and make invidious comparisons of life in East and West Germany. Although the regulation permits "visits with close relatives" and trips "which serve either scientific purposes or peaceful rapprochement between the German Democratic Republic and the state concerned," it is

clear that permission for visits to the West will be granted only to those whose loyalty is beyond question.

Undoubtedly alarmed by the government's attitude and in order to avoid army service, young East Germans are defecting to the West at a rate even higher than last year. De-

spite a drop of approximately 33 percent in the total number of refugees fleeing to West Berlin so far this year, there has been an increase in the 17-24 age group to 14,883, 34.6 percent of the total, as compared with 13,234, 20.5 percent at this time last year.



volunteer for mining, farm and factory work during the summer holidays, and has announced a broad summer camp program.

The travel restrictions, the most stringent limitation on intra-German travel since 1953, are aimed primarily at curbing student visits to West Germany during the summer vacation. The Communists not

CYPRUS

As a result of his preliminary investigation of the Cyprus question, NATO Secretary-General Spaak believes that guaranteed independence offers the most helpful basis for reopening negotiations. British governor Harding wants London to make some positive move now toward eventual negotiations

with the Cypriots, but the government prefers to await the outcome of Spaak's endeavors.

Spaak, who for several weeks has been exploring the positions of Britain, Greece, and Turkey through their North Atlantic Council representatives, handed a working paper

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on his views to US ambassador Perkins on 6 June. Spaak feels that the only possible solution lies somewhere between the two extremes of union with Greece or partition, and he has concluded that the best basis for getting negotiations started would be internationally guaranteed independence for Cyprus for either an indefinite or a specified period. The idea is premised on the drafting of an acceptable constitution which would clearly enunciate minority group rights. Defense of the island would be ensured by military base rights granted to Britain, if necessary under a NATO arrangement.

The American consul at Nicosia, after a long talk with Governor Harding on 8 June, believes Harding wants some further statement from London indicating that Britain is trying to keep the door to limited self-government open. The governor fears that the Cyprus issue is being "pushed aside" in London and that even the reform plan for local government will probably not be published now because of Turkish apprehensions. Cyprus

government officials have been urging London to call a conference of representative Cypriots immediately.

Harding spoke somewhat bitterly of the new British Labor Party manifesto advocating self-determination for all dependent territories, saying that it will virtually end any chance that Makarios might become less intransigent. Although the general policy advocated is not new, the issuance of the manifesto will probably further encourage Makarios to insist on self-determination in the hope that a Labor government will eventually come to power in Britain. For the present, he is expected to visit various foreign countries for propaganda purposes and to go to the UN General Assembly this fall.

London is apparently postponing any new move on Cyprus till Spaak has made some progress and till certain studies concerning implementation of the Defense White Paper have produced a decision on Britain's long-term need to retain bases on the island.

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INDONESIA

Lt. Col. Sumual, commander in East Indonesia, and army chief of staff General Nasution have signed an agreement in Makassar placing the entire East Indonesian command directly under Djakarta. By this agreement Sumual relinquished his post as commander of East Indonesia and reportedly is to become a candidate for training in the US. According to a Makassar radio broadcast, however, Sumual claims to have been appointed chief of staff of a new "East Indonesian Interregional Command." This

command, essentially the same as the old one, is to be divided into four military regions, one of which was created on 1 June. The other three are to be activated shortly and to be headed by the three regimental commanders already in the area who presumably are followers of Sumual.

This military reorganization is part of a "mutual understanding" allegedly reached between Sumual and Nasution for "normalizing" military, economic and

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financial relations between East Indonesia and the central government. Whatever Sumual's authority under the reorganization may be, it is not at all clear that the "mutual understanding" will be marked by genuine co-operation between Djakarta and East Indonesian civil and military officials.

Sumual has stated that the 2 March proclamation in which he virtually proclaimed autonomy for East Indonesia remains in force, but gives lip service to Djakarta's authority by saying that it is to be implemented within the framework of national policy.

The economic consequences of the separatist movements in East Indonesia and elsewhere are becoming increasingly apparent. Prime Minister Djuanda told parliament on 7 June he

would shortly submit the \$100,-000,000 Soviet technical aid agreement for ratification--further indication that the government will use foreign aid to meet regional demands for economic development and thereby attempt to buy back provincial loyalties. The \$15,000,000 US loan signed on 30 April reportedly has already been earmarked for road building in Sumatra and for small electric power plants chiefly in non-Javanese communities.

Meanwhile, the government is deeply concerned over its financial position which is deteriorating as a direct result of the illegal trade in East Indonesia and Sumatra. An official of the Bank of Indonesia has stated that unless the government can come to terms with the provinces without delay, the financial situation will be "virtually hopeless."

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SITUATION IN LAOS

Laotian prime minister-designate Katay continues his efforts to form a cabinet in which representatives of the four major Laotian parties will serve. His chances of success, while still fair, have been somewhat reduced as a result of the unfavorable reaction of a number of deputies to his proposed policy toward the Pathet Lao. The decision of former premier Souvanna Phouma, who controls a wing of the Nationalist Party, to withdraw his support from Katay poses a threat of a split within the latter's own party. Such a development might en-

courage deputies in the other parties, many of whom are wary of Katay's personal ambitions, to combine with Souvanna Phouma in sufficient numbers to block a Katay government.

Judging from the advance copies of his investiture speech, Katay will call for a foreign policy based on strict neutrality and will propose continued negotiations with the Pathet Lao on terms less favorable to the Pathets than those advanced by his predecessor, Souvanna Phouma. While Katay indicates that unification must be based

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on agreements previously concluded between Souvanna and the Pathets--including entry of Pathet representatives into the Laotian government--implementation of these agreements is to depend on prior dissolution of the Pathet Lao movement and reimposition of royal government authority over the two northern provinces. In order to check Pathet stalling, negotiations are to be limited to a two-month period and to be on a new basis: the Pathet Lao will no longer bargain as a "state within a state" but will be regarded as "outlaws" who

fought in the Viet Minh army against their own country.

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COMMUNIST CHINA'S FORTHCOMING NATIONAL PEOPLE'S CONGRESS

The next session of Communist China's National People's Congress, scheduled to open on 20 June, will probably stress Peiping's policy of general relaxation in internal affairs and provide the Communists with an opportunity to demonstrate the greater freedom of debate sanctioned in Mao Tse-tung's recent doctrinal pronouncements.

The National People's Congress is nominally the highest organ of government in China and, like the USSR's Supreme Soviet, provides the regime with a platform from which to announce major policies and plans. At the forthcoming session, non-Communists will probably enlarge on the unusually frank criticisms they have been voicing in recent weeks of the political impotence of China's puppet parties, of dogmatism in the arts and in science, and of the lack of real authority given to nonparty personnel.

While a good many of these criticisms may have been stage-managed, some of them appear to have gone beyond the limits of approved argument. For example, an elderly physiologist's condemnation of the proposal to abolish the Chinese script in favor of an alphabet is probably the first time since the present regime was established that a policy approved by Mao himself has been publicly criticized.

The heterodox nature of the criticisms now being permitted suggests that Peiping is confident that a bold liberalization policy will not get out of hand. Peiping's position appears to be that blunt condemnations of the mistakes of subordinate party personnel in all fields will draw the fire of malcontents away from the regime itself, improve the work of scientists and other intellectuals, and increase the prestige of the party's top

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leadership for advancing a "sincere" policy. Mao's prestige in particular appears to be engaged in the matter and he has declared his intention to make the "all flowers" policy a permanent one.

Extending the relaxation policy to the economic field, the congress will undoubtedly highlight the regime's intention to lighten the burden on the Chinese people by modifying overambitious economic programs. (See Part III, p. 3)

The high point of the congress is likely to be Chou En-lai's foreign policy report,

which is expected to be a full statement of Peiping's current stand on major international issues. On the matter of Taiwan, he will probably refer to the recent riots in Taipei, stress the increasing possibility of a "peaceful liberation," and offer to negotiate with the Chinese Nationalists. Chou is also expected to give unequivocal support to Soviet policies toward the West and to underscore the importance of bloc unity, while pointing out that such unity does not require complete agreement among the Communist countries on all matters. (Concurred in by ORR)

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COMMUNIST CHINA CHARGES INTRUSION BY AMERICAN AIRCRAFT

Chinese Communist anti-aircraft batteries near Swatow fired on and damaged an American naval aircraft from the carrier Hornet off the southeast China coast on 12 June. Following the incident, Peiping promptly issued its usual warnings in such cases. Declaring that the regime will permit no violation of its land, sea, or air space, Peiping charged that American authorities "must bear the consequences" for the "provocation," which was "obviously aimed at creating new tensions in Asia."

Peiping's charges were broadcast some 13 hours after the episode. The Chinese Communists have reacted with similar dispatch in past incidents involving alleged intrusions by American aircraft or the activities of American carriers off the China coast.

In the winter of 1955, Radio Peiping responded within hours when American naval forces appeared off the China coast to

assist in the Nationalist evacuation of the Tachen Islands.

In January 1956, when the Seventh Fleet conducted exercises about 125 miles east of the Tachens, Peiping reacted swiftly with charges of American violations of the air space over Communist-held offshore islands. Last August, Peiping was quick to publicize similar charges when American naval units operated about 100 miles south of Shanghai during a search for the crew of an American naval aircraft shot down by the Chinese.

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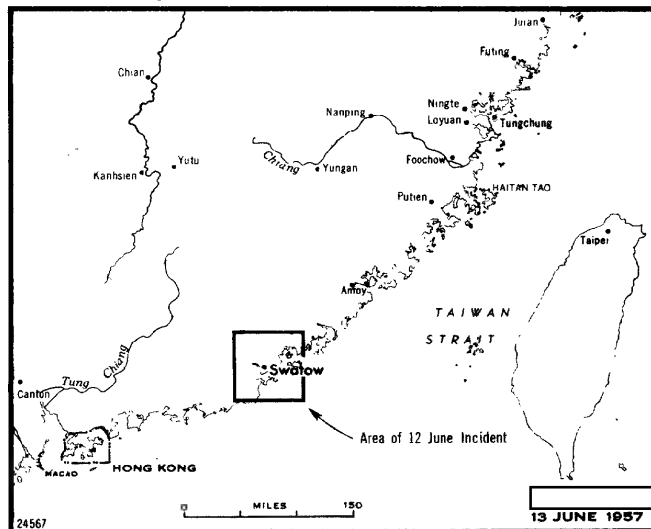
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The approach of any unidentified or hostile aircraft in this area.

Chinese Communist propaganda has linked the alleged intrusion with the recent Taipei riots. An editorial published on 13 June in the authoritative People's Daily, which in most cases establishes the Chinese Communist propaganda line, declares that the US is resorting to new provocations in order to sustain its policy of "hostility and aggression" toward Communist China--which the Chinese claim has been shaken by anti-American demonstrations on Taiwan and the British move to relax controls on trade with Peiping. Communist propaganda will use the incident in new charges of US "aggression" in connection with the recently stepped-up campaign for "peaceful liberation" of Taiwan.

Southeast China25X1
25X1**CUBAN GOVERNMENT'S POSITION WEAKENS**

President Fulgencio Batista's government has suffered a noticeable loss of prestige during the past few weeks with the failure of its drive against the rebels in eastern Cuba and of efforts to promote a political compromise in Havana. Batista's ability to retain control until the end of his term in February 1959 is uncertain.

Early in the first week of June, the government announced a drive to wipe out within a week revolutionary activities in Oriente Province, stronghold of rebel leader Fidel Castro Ruz and recently the scene of additional rebel landings. The government has failed to rout the rebels

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Extreme repressive measures--including an unofficial curfew in Santiago de Cuba--have further alienated the predominantly anti-Batista population of Oriente Province. Some 100 families have been arbitrarily evacuated from their homes near Castro's headquarters in the Sierra Maestra, and 180 miles of coastline in southern Oriente were blockaded by the government in an attempt to cut off the rebel supply line. Rumors that government forces are using both napalm and mustard gas against Castro although officially denied--have provoked angry protests from every part of the country.

The failure to curtail revolutionary activity by military force has had its counterpart on the political scene. Exports by a joint congressional committee to promote an electoral

agreement between government and opposition parties, have been stalemated by the government's recent refusal to grant a general amnesty, and last week the opposition Autentico Party withdrew its representatives. Several opposition political leaders have stated that they will not participate in elections unless Batista grants reasonable electoral guarantees. Batista's only concession to date has been agreeing to move up the date of national elections from November to June 1958 without advancing the inauguration date from February 1959.

Dissatisfaction has been apparent in part of the labor movement and has even been reported among government officials and military personnel normally considered loyal to Batista.

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THE CANADIAN ELECTION

The failure of either of the major Canadian parties to win a majority in the 10 June election, and the absence of any apparent basis for a coalition government, suggest that new elections may be held soon.

The American embassy in Ottawa reports that most observers expect Prime Minister St. Laurent to resign immediately without convening the new Parliament. This would permit Conservative leader John Diefenbaker to form a new government with a view of seeking a dissolution when circumstances offered him an electoral advantage.

In the meantime, however, the Conservatives would be forced to rely on the votes of the right-wing Social Credit Party and of the socialist Co-operative Commonwealth Federation. Both these parties have reportedly already indicated willingness to "co-operate" with whatever minority government is formed until new elections are held. Should Diefenbaker and St. Laurent both decline to form a minority government, however, the governor-general could call for new elections as early as September.

The recent campaign revolved around domestic issues,

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including high taxes, agricultural surpluses, and welfare legislation. The Conservative attack on the Liberal record regarding these issues was colored by their belief that United States interests have been allowed to acquire too much control over Canadian resources. The embassy comments that the Conservatives can be expected to show greater sensitivity about Canadian sovereignty, especially in the joint defense field.

Assuming that the Conservatives take power, the embassy

comments that their inexperience and lack of working policies probably will create some practical difficulties in conducting relations with Canada. In foreign policy, a Conservative government would be likely to draw Canada closer to Britain and the Commonwealth, and reduce its role in the UN. While no change is to be expected in Canada's support of NATO, the embassy believes that intensified nationalistic feelings will become increasingly evident in Canada's economic relations with the United States.

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PART III

PATTERNS AND PERSPECTIVESNEW FERMENT IN EASTERN EUROPE
STIMULATED BY CHINESE COMMUNIST DOCTRINES

Communist intellectuals in Eastern Europe have begun to turn to Communist China for inspiration and ideological support. Polish intellectuals are quoting Chinese doctrines concerning "all flowers" and "internal contradictions" in support of their own convictions, and writers in the hard-line Satellites have begun to do the same. While they probably fear a groundswell of Chinese-inspired intellectual ferment, the Satellite regimes, with the exception of Hungary, have deliberately avoided direct comment on the Chinese ideas. The approach in Hungary--stressing that the new Chinese doctrines are not necessarily applicable elsewhere in the Sino-Soviet bloc--has recently been sanctioned by Khrushchev himself and may become the orthodox line throughout the Soviet bloc.

The Chinese Position

A relatively liberal attitude toward freedom of expression in the arts, coupled with professions of toleration of non-Marxist thought, became the party line in Communist China a full year ago. It was not until this year, however, that liberal intellectuals in Eastern Europe began to cite the Chinese doctrines as support for their own ideological tenets. Until the suppression of liberalism in Hungary, the intellectuals had depended on themselves, or looked to Yugoslavia, to the West and to the pronouncements of the Soviet 20th party congress for inspiration and encouragement.

Soviet condemnation of Titoism and of "revisionism" in Poland, and the general emphasis on ideological conformity following the Hungarian revolution,

stimulated the search for support from a new quarter. The Chinese doctrine--"let all flowers bloom"--seemed to offer such support from an unimpeachable Marxist source. The "internal contradictions" thesis, fully expounded in late February, added new scope to the Chinese concepts and further encouraged the Satellite liberal Communists, particularly those in Poland. While the Chinese would be averse to intrabloc polemics developing over their doctrines, they have nevertheless suggested that their recent formulations are applicable to all Communist countries.

Peiping's 29 December statement on intrabloc relations, for example, has been described by one Chinese writer as the solution to "certain theoretical points on socialist societies which have not been set forth or concretely discussed in the Marxist classics." Mao Tse-tung's formulation on the existence of contradictions between the masses and the leaders in socialist societies has been acclaimed in China as a contribution to basic Communist theory which supersedes the earlier theories of Lenin.

The Polish Interpretation

The belief in Poland, shared by both the liberals and the regime, that winds of "fundamental" and "strategic" significance are "blowing mightily in China" has been well publicized in the Polish press, particularly since Mao Tse-tung made his "secret" speeches to the Chinese party in late February and early March.

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The Gomulka regime views the Chinese doctrines as props for its own convictions concerning Poland's road to

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socialism and the healthy evolutionary development of Marxism.

In late May, the regime established a Polish-Chinese Friendship Society, the first such organization in the Satellites. The society will publicize Chinese theories in Poland, which--according to a Polish politburo member--can profit from Chinese experience as much as it can from the Soviet.

The Polish liberals, when attacked by the regime for "revisionist tendencies," cite Chinese thought to bolster their arguments against censorship and authoritarian attitudes in general. Let differences within the nation be solved by "long-range, patient and exhaustive arguments and not by means of vulgar, primitive or administrative methods," the Poles repeat after the Chinese. To a Soviet writer's remark last winter that flowers may bloom but weeds must die, the Polish liberals answered that killing the weeds may also eliminate some of the "choicest flowers"; further, they argued, who is to tell the difference between the two? Marxism itself was once considered a "weed."

A Slovak Echo

Although the Poles claim that the Chinese concepts are "pregnant with significance" and should thus serve as a "starting point for discussion on an international scale," little overt discussion has as yet taken place in the hard-line Satellites.

Only in Czechoslovakia have the intellectuals made public use of the Polish interpretation. Ignoring staunchly orthodox party dicta, the Slovak writers association journal in mid-May printed an attack against party dogmatism under the guise of a discussion of Chinese attitudes toward art and literature. Declaring that the people have

the right to discuss non-Marxist as well as Marxist thought, the article observed that non-Marxists have existed and will continue to exist and that, as a purely logical consideration, the socialists cannot play a leading role within a society unless there are some nonsocialists around to be led. It also noted--as have the Polish commentaries--that Marxism-Leninism should certainly not be afraid of criticism since it is strong enough to withstand any test.

The Regimes React

Private discussions of the Chinese concepts--in large part inspired by the public Polish comments--are undoubtedly taking place throughout the Soviet bloc. The Hungarian party, however--perhaps because its problems with the intellectuals are the most urgent--is the only orthodox one as yet to provide a full analysis of the Chinese doctrines and their implications for Eastern Europe. A party lecturer on the Budapest radio in late May, discussing "What is really going on in China?" give relatively frank treatment to the Chinese concepts but stressed that the Chinese themselves would protest the wholesale application of their doctrines in Hungary, where "counterrevolutionary" elements are still alive.

The Rumanian regime has in a small way repeated the Hungarian approach, without providing full analysis. It has acknowledged that the Chinese party is applying Marxist-Leninist theory to its own concrete conditions and that the Rumanian party could learn a great deal from the Chinese. But this acknowledgment emphasized the "purity" of the Chinese approach, the "glorious" leadership of the Soviet party, and indicated that things to be learned from the Chinese are related only to matters already subscribed to by the Rumanian

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and Soviet parties. The basic questions concerning "internal contradictions," toleration and persuasion were not mentioned, an apparent warning that such things are not to be discussed in Rumania.

The other Satellite regimes presumably hope that an indirect approach will be sufficient to still critical questions. Most of the orthodox regimes have recently stepped up their attacks on literary deviations and have emphasized the need for over-all political conformity and the extent of "enemy" activity in Eastern Europe.

This indirect handling of the problem probably will accomplish little. As long as the Poles accord publicity to their interpretation of the Chinese concepts--without Chinese repudiation--discussion among liberals elsewhere in the Satellites is apt to grow and to become overt, appearing--as it already has in Slovakia--in the pages of literary journals.

Direct discussion of the Chinese doctrines by the hard-line regimes might keep most of the ferment beneath the surface, but, at a minimum, it would probably prove an embarrassing task. Emphasis on the nonapplicability of many of the Chinese ideas in essence reasserts the many-roads-to-

socialism thesis, and direct discussion might have to be combined with "administrative" measures against the liberals, a procedure inveighed against by the Chinese.

The Soviet Reaction

In addition, specific handling of the Chinese doctrine would involve the regimes in topics of primary interest and concern to the USSR, which, to date, has displayed both caution and sensitivity when confronted with Chinese ideology.

That the USSR has misgivings about the influence of Chinese formulations on other bloc countries--as first suggested during the Soviet-Polish "literary" debates during the winter and spring--was confirmed by Khrushchev on 2 June during his appearance before an American television panel. Replying to a direct question, Khrushchev suggested that Mao's "new ideas" might be applicable to China but not to the USSR. He specifically denied that there are any contradictions between the masses and the leaders in the Soviet Union. Moscow clearly underscored its sensitivity on this last point by deleting this statement from the "transcript" of the interview featured on the Soviet radio and in the press. 25X1

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SHORTCOMINGS IN COMMUNIST CHINA'S ECONOMIC PLANNING

The Chinese Communists recently have admitted they made "serious mistakes" in being overambitious in their economic planning, implying that this was in part a result of their past dependence on Soviet economic advice. These mistakes, they say, are the cause of the raw material and consumer goods

shortages as well as the financial stringencies of the past six months which forced Peiping to make 1957 a year of retrenchment and austerity. Indications are that this more conservative outlook will also affect China's Second Five-Year Plan (1958-1962). The planning chiefs have recently disclosed that the investment

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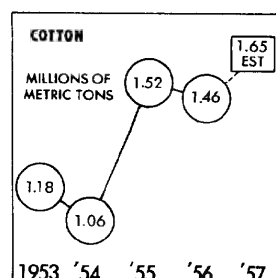
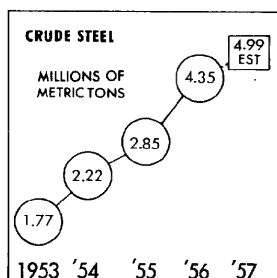
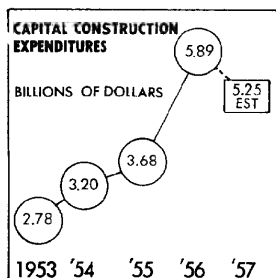
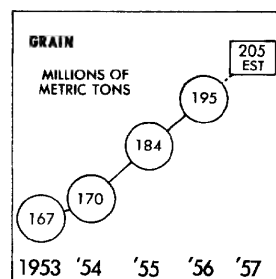
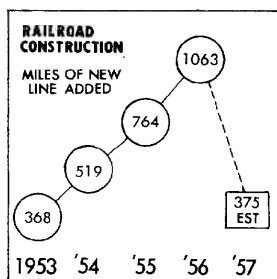
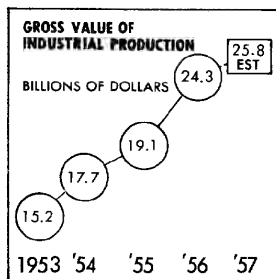
pattern for the plan will be altered to give an increased proportion of funds to light industry and agriculture and that more emphasis will be put on the construction of small- and medium-sized enterprises which can be designed and equipped (the objective is up to 70 to 80 percent) from China's own resources.

The Planning Process

An annual economic plan begins to take shape when the top levels of the party--ideally in the last half of the preceding year--draw up a set of "control figures" or targets for all major economic activities. These "control figures" would appear to have already had the benefit of initial study by the government planning bodies, the State Planning and the National Economic Commissions, if only because of the interlocking party and government positions

of the principal planners, Lu Fu-chun and Po I-po. In addition, Soviet advisers very likely play an important role in these deliberations.

These "control figures" are then broken down and sent to the ministries concerned for study. The ministries sound out the principal enterprises under their jurisdiction before arriving at an estimate of the feasibility of the performance levels required. When they are satisfied as to what level can be reached, they submit the conclusions to the National Economic Commission, which then begins the delicate task of "balancing" the various sections into an internally consistent plan. After making the needed adjustments, the planning organ submits a draft plan to the top party leaders. When approved, it becomes a "final" plan which is then supposed to be routed through government channels for ritual approval.

CHINESE COMMUNIST ECONOMIC INDICATORS

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Planners at Work--1956

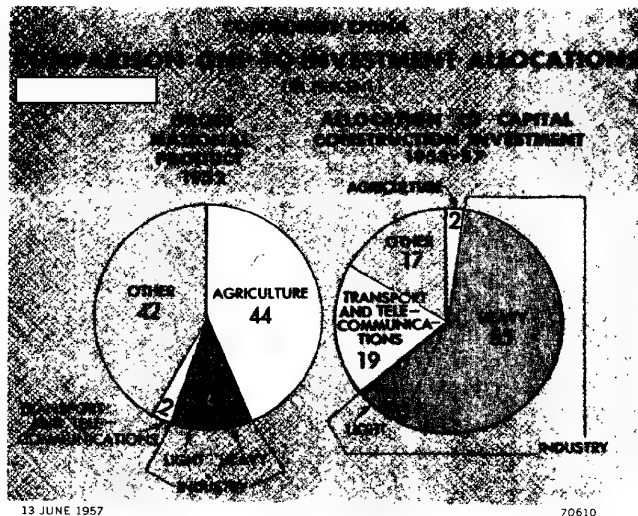
"Don't bite off more than you can chew," warned the party leaders at the outset of the First Five-Year Plan (1953-1957). But when the 1956 plan was drawn up, the top command, spirits buoyed by the gratifying 1955 harvest and by the rapid and easy socialization of agriculture and private business, forgot the warning. One of them is reported to have remarked, "We invested too much, we went too fast, we were wrong."

By late 1956, resulting difficulties could no longer be ignored. Serious shortages of steel, electric power, coal, cement, lumber and other building materials developed. Increases in individual purchasing power outdistanced the supply of consumer goods. Aggravating the resulting inflationary pressures was the influx of a large unplanned addition to the urban labor force. The state's agricultural procurement programs, especially those involving grains and cotton, began to lag. The collectivization of agriculture did not yield anticipated increases in output and actually drove down production of secondary farm products. State buying prices were raised on some agricultural products, and agricultural loans were greatly increased. The state's carefully shepherded reserves were run down and revenues were disappointing.

The socialization of commerce also seemed to hinder domestic trade. Wastage up to 25 percent of total investment was discovered on construction projects. In addition, there were

transportation bottlenecks, particularly on the rail net facing the North China Plain.

On top of all this, events in Eastern Europe probably brought home to the Chinese Communists the dangers inherent in too slavish an imitation of the Stalinist emphasis on heavy industry. According to an article in a Chinese journal last December, questions regarding the conflict between the preferential development of heavy industry and care for the people's livelihood were raised by "some comrades" after seeing the "mistakes" of certain Eastern European countries.

**Planning for 1957**

By the time the leaders began programming for 1957 their optimistic mood had largely dissipated. The "final" 1957 economic plan will not be made public until the National People's Congress meets late this month, but it is already clear that the regime sees this as a year of retrenchment and austerity.

There is some evidence that the investment program for the year may be cut, perhaps by 10 to 15 percent. A number of

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important projects in heavy industry are being suspended or slowed down. Investment by central industrial departments is nevertheless to increase slightly and will be concentrated in those fields where shortages have been most crippling--iron and steel, electric power, coal and building materials. The pattern of investment in railroads has been shifted to lay primary emphasis on improving the capacity of overworked older lines.

Budgetary spending on administration and defense is due for a cut. For example, the operating funds of the army's Rear Services Department, which "manages and uses" a large share of all military funds, have been cut by one third, and the armed forces are to be reduced in size as an economy measure.

The uneven pattern of China's industrial growth is indicated by the fact that, while more than 20 of the 46 key industrial targets were reached by the end of 1956, 15 will not be met even at the end of the plan this year. Petroleum, railroad equipment, nonmilitary ships, and almost all important consumer goods will not meet plan goals.

To help ease China's financial strains, the Soviet leaders have agreed to permit Peiping to delay delivery of about \$100,000,000 in agricultural goods until 1958. Moscow reportedly has also agreed to a moratorium on repayment of China's debt, which now totals around \$2 billion.

Implications for the Future

Commentary surrounding the campaign to popularize Mao Tse-tung's theses concerning "contradictions" suggests that preoccupation with gigantic, modern enterprises is being reconsidered in favor of a more modest approach which will yield quick-

er returns. Central among the economic "contradictions" is the demand for building China into an advanced industrial power and what are referred to as the "realities of China's backward agricultural economy." Peiping recently acknowledged that its avid pursuit of expensive large-scale modern plants with high standards of construction and automation has tended to "overemphasize the future and overlook the present." Moreover, it is a policy which affords only limited employment opportunities, an important consideration in overpopulated China.

The correctness of past investment ratios between heavy and light industry has been called increasingly into question. China began the First Five-Year Plan with the ratio standing at 8:1, but later reduced it to 7:1. (The ratio in the Soviet Union, which the Chinese say stood at around 6:1 in the First Five-Year Plan, has more recently been held at about 10:1.)

As long ago as last December a writer in the official People's Daily--possibly a party leader using a pseudonym--suggested that China was becoming a "prisoner" of the theory that the people's livelihood had to be sacrificed to the demands of heavy industry. He asserted that a stubborn pursuit of this policy might lead to a situation where "we have neither the industry nor the people." Other writers have argued that the ratio should be reduced to 6:1 for 1957 and the Second Five-Year Plan, and that agriculture should also be given a greater share of total investment. Chairman Mao reportedly has associated himself with these sentiments, and the planning chiefs have agreed that in the Second Five-Year Plan (1958-1962) increased proportional investment should be made in agricultural and light industry,

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although heavy industry should still retain priority.

They have also proposed that the country, while continuing to build some big modern plants in the Second Five-Year Plan, should emphasize medium- and small-sized enterprises which not only can be designed and equipped by China itself, but also can be built more quickly and at less cost. Most projects should be designed by China's own experts with the aim of providing 70-80 percent of the necessary equipment domestically. Construction costs should be cut by 20-30 percent and a more fluid economic administration should be set up to give greater power at the lower levels. Extensive revisions are probably being made in the earlier targets for the plan.

It was probably Mao Tse-tung himself who settled the

dispute on planning, including that surrounding the heavy/light ratio, just as Mao personally reversed the party line in 1955 on the speed of agricultural socialization. [REDACTED]

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[REDACTED] Liu Shao-chi and Chen Yun for recent economic failures, implies they were more obstinate than other party leaders involved in planning, such as Chou En-lai, Li Fu-chun and Po I-po. However, all five appear to be in good standing at this time. Mao may have sent some of these on extended trips to get firsthand evidence of the need for a change in the line; Liu, Li and Po have all made trips in recent months. While it seems unlikely that any heads will roll, there is strong evidence that Peiping's leaders are sobered and have adopted a considerably more conservative approach to economic planning. [REDACTED]

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(Prepared by ORR)

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SINO-CEYLONESE RICE-RUBBER AGREEMENT TO BE RENEGOTIATED

The Ceylonese government is preparing to renegotiate with Communist China, the five-year rice-rubber agreement which expires at the end of 1957. A delegation tentatively scheduled to visit Peiping in June for this purpose will probably find the Chinese disinclined to sign an agreement as favorable as that obtained by Ceylon in 1952. Signature of a less favorable agreement would subject Prime Minister Bandaranaike's government to considerable criticism. A breakdown of negotiations without agreement could have repercussions seriously affecting the government's stability.

The 1952 Agreement

The first five-year rice-rubber agreement involved the annual exchange of 50,000 metric tons of rubber--about half of Ceylon's annual production--in return for 270,000 metric tons of Chinese rice. China agreed to pay a higher price for rubber than the world market rate, and the prices of both commodities were to be negotiated annually to take account of fluctuating rates. The arrangement has resulted over the past four years in an average annual net profit to Ceylon of roughly \$10,000,000, which China has normally paid in sterling.

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At the time of signing in 1952, the international rubber embargo against Communist China was effective. Ceylon did China an important favor by opening the first significant breach in the trade control system. Simultaneously, China assisted Ceylon out of a precarious position by assuring it of a regular source of rice.

Ceylon imports about two thirds of its total food supply and half of the 1,000,000 tons of rice it consumes annually. In 1952, it was suffering from the effects of crop failures throughout South and Southeast Asia. Traditional suppliers such as Burma were unable to fill Ceylon's needs. Furthermore, Ceylon badly needed a stable market for its rubber. During the war, the West had been cut off from Southeast Asian rubber, and Ceylon had sold its total production to the Allies. The re-emergence of Southeast Asian competition in the postwar period, the poor condition of Ceylon's rubber plantations which had been overtapped, high production costs, and the growing use of synthetic rubber put Ceylon in a poor market position.

Changed Conditions

Prime Minister Bandaranaike has recently said that his government desires to renew the rice-rubber agreement, presumably on terms equally favorable to Ceylon. Under present conditions, however, Peiping can be expected to take a harder bargaining position than in 1952. It now can buy rubber freely in Southeast Asia at world market prices, and having obtained its immediate political objective in Ceylon--the exchange of ambassadors--Peiping may no longer see sufficient political advantage in paying premium prices. The Chinese Communist negotiators therefore are likely to offer no more than the current world price. They may also

suggest substitution of commodities for sterling in settling any annual trade balance. During the past two years, Peiping has sought unsuccessfully to lighten the burden of its sterling payments by linking Chinese goods and Ceylonese rubber in a package deal; such a plan has been repugnant to Colombo.

If the Ceylonese prove obdurate, Peiping may shift its rubber purchases to Southeast Asia, an area where it is seeking closer political and commercial ties. In fact, recent reports from Singapore indicate renewed Chinese interest in the Malayan rubber market, formerly the principal source of China's imports. Diversion of buying to Malaya at this time would give Peiping an entering wedge for contacts in the Federation--scheduled to gain independence next August. Such a move would disrupt the \$65,000,000-\$70,000,000 yearly rice-rubber trade, depriving Ceylon of the \$10,000,000 annual profit which Colombo has come to count on in budgetary planning.

Other Possibilities

These considerations have become sufficiently important for Bandaranaike to accept a watered-down agreement rather than lose the Chinese market. His difficulties in seeking alternative arrangements elsewhere would probably create more problems than he could solve.

The USSR has claimed that there are mutual advantages in increasing Ceylonese-Soviet trade, but seems unlikely to replace China in the Ceylonese rubber market. The USSR has bought a large part of China's purchases from Ceylon, but largely to aid China in breaking the trade embargo. Should Moscow now decide to buy some of Ceylon's output, it would probably not be willing to pay premium prices.

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There is no promising market in the free world for Ceylonese rubber. Since World War II, Ceylon has several times unsuccessfully attempted to sell its rubber output to the United States or sought American aid equal in value to its rubber trade with China. Private American buyers have not been interested, and the US government has filled its stockpile needs elsewhere. US financial aid to Ceylon has been well below the \$10,000,000 annual rubber premium from Communist China upon which Ceylon has come to depend in its budgeting.

Bandaranaike is already faced with the threat of a

civil disobedience campaign by the Tamil-speaking minority population of northern Ceylon next August. Communist and leftist labor unions may capitalize on this campaign to create additional unrest. Should the prime minister in the next few months be forced to sign a new rice-rubber agreement less favorable to Ceylon than the present one, his political opponents would probably raise a storm of criticism. If no agreement is reached, the consequences at home might be politically disastrous for Bandaranaike.

(Concurred in by 25X1
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LATIN AMERICAN COMMUNISTS LOOKING TO PEIPING

Some Latin American Communist party leaders--particularly in Ecuador, Chile, Colombia and Costa Rica--have recently been emphasizing the applicability of the methods and activities of the Chinese Communist Party to Latin American conditions.

This growing interest of Latin American Communists in the ideological and propaganda lessons to be learned from Peiping has been evidenced both in official publications and in reported statements at party meetings. Illustrative of the increased attention to the example of Communist China was the sizable representation of Latin American parties at the eighth congress of the Chinese Communist Party in Peiping in September 1956. Delegations from over half the Latin American Communist parties attended.

The USSR's unpalatable actions in Hungary a few weeks

later probably made Peiping seem a more useful symbol in Communist eyes in Latin America as elsewhere. Additional stimulus has probably been given by Peiping's rising prestige among Latin Americans generally. A record number of Latin Americans visited Communist China in 1956, and the same year saw Peiping's first extensive effort in the hemisphere. A Chinese opera troupe toured Chile, Argentina, Uruguay and Brazil in the late summer and fall, while a trade mission is now negotiating in Uruguay and may visit Argentina later.

Ideological Considerations

Besides such immediate influences, however, there is a solid basis in Communist theory for this growing interest of the Latin American parties. Communist thinking emphasizes many parallels between pre-Communist China and Latin America, such as economic domination by foreign

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capital, a "semicolonial" political status, and the existence of indigenous bourgeois elements which could be used by a Communist party in its transformation of the state. Thus, though Latin American Communists look to Moscow for leadership, some of them may think that China's experience can be regarded as more pertinent than the USSR's as a general guide to the achievement of power and the transition to Communism.

The Soviet 20th party congress, moreover, laid down the doctrine that the path to power and the transition to Communism will vary in each country according to local conditions. This in effect amounted to a Soviet sanction of increased attention by Latin American Communists to the lessons of the Chinese Communist experience.

Ecuador

The Ecuadoran Communist Party (PCE) has already evidenced a clear intent to turn toward the Chinese Communist Party for a greater degree of orientation. At the national party congress in May, delegates of the PCE reportedly praised Communist China rather than the USSR as an example for world Communism, making specific reference to land reform--a socio-economic problem in Ecuador which the PCE attempts to exploit in its domestic political program. Pedro Saad, re-elected secretary general at the congress, was one of two top PCE leaders who is believed to have attended the Peiping congress and may have inspired the laudatory discussions on China.

PCE interest in China is being supported by Chinese propaganda which is apparently entering the country in sizable quantities and is distributed by a special outlet in Quito. A second outlet reportedly is

now being established in Guayaquil, Ecuador's largest city.

Chile

Since last September, the outlawed Chilean Communist Party (PCCh) is reported to have made increasing use of Chinese Communist Party study and ideological material in PCCh publications. The PCCh magazine Principios devoted an entire issue to the congress in Peiping which was attended by several top Chilean Communists. The magazine noted particularly the similarities between pre-Communist China and Chile, the Chinese enrichment of methods of developing socialism, and Chinese avoidance of Soviet errors. PCCh propaganda and the high level of Chilean Communist travel to China suggest close liaison between the two parties and possibly strong Chinese ideological guidance.

Colombia

The secretary general of the outlawed Colombian Communist Party (PCC), Gilberto Vieira, who attended both the Soviet 20th party congress in Moscow and the Chinese congress in Peiping, reportedly discussed and praised in detail the Chinese Communist interpretations of the Hungarian revolution, de-Stalinization, Stalin's historical place in world Communism, and the relation of national parties to the international Communist movement.

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Central America

Leaders of the Costa Rican Popular Vanguard (Communist)

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Party, which was also represented at the congress in Peiping, reportedly told [redacted]

regard to worker, student, and other exchange programs.

[redacted] that the Chinese Communist Party would have a great influence in directing the Latin American revolution because of likenesses between China and Latin America. [redacted]

Although there has been no perceptible increase of Chinese Communist Party influence on the Brazilian or Mexican Communist Party, the Brazilian Communist press has published extensive materials on the Peiping congress. Some Mexican intellectuals have shown a great interest in events taking place in Communist China as a source of inspiration for the solution of Mexican problems. Mexican newspapers have discussed an article from an Indian newspaper which asserts that the Communist penetration of Latin America would be directed by Chinese Communists in the future. [redacted]

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[redacted] China henceforth would be primarily responsible for practical aid to Latin America, especially in [redacted]

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